

Commerce Bancshares, Inc.
Compliance Department, TB12-1
922 Walnut P.O. Box 13686
Kansas City, MO 64199-3686

April 28, 2008

Docket Number: R-1305

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

via e-mail to:
regs.comments@federalreserve.gov

Dear Ms. Johnson:

Commerce Bancshares, Inc. is a registered bank holding company with total assets of \$16.2 billion at December 31, 2007, and three bank subsidiaries. Two of these banks are full-service banks, with approximately 200 branch locations in Missouri, Illinois, Kansas, Oklahoma, and Colorado. The other bank is a limited-purpose bank, with one office in Omaha, Nebraska. All of the banks are national banks. A full line of banking services, including investment management and securities brokerage are offered. The Company also has operating subsidiaries involved in mortgage banking, credit related insurance, venture capital and real estate activities.

The Board of Governors has requested comments on the proposed changes to Regulation Z and certain mortgage lending practices.

The proposal would establish a new category called "higher-priced mortgages". The purpose of this new category is to have additional restrictions on Alt-A loans, but the proposed trigger (3% on 1st lien real estate mortgage loans and 5% on junior liens) has the potential to bring prime borrowers under the proposed category. We suggest the requirements under this proposal be added to Section 226.32 loans and expand this section if necessary to include home purchase loans. This eliminates an additional loan category and helps to ensure consistency with other applicable regulations. If there is still a desire to add an additional category of loans, the triggers should be no lower than 4% on 1st lien real estate mortgage loans and 6% on junior liens. This will help to exclude as many prime loans as possible. If the triggers are not raised, the new restrictions on this category of loan may prompt lenders to adjust policies and procedures, which would affect the availability of credit.

While these proposed triggers are similar to the ones used for reporting "Rate Spreads" for HMDA, they are not identical. We would suggest if the "higher-priced mortgages" category is retained, it should be coordinated with the rate spreads determination instructions for loans subject to Regulation C. (Regulation Z is the application date and Regulation C is the rate lock date)

The proposal would also make it mandatory, for 1st lien higher priced mortgages, to establish and maintain escrow accounts for a minimum of 12 months. This proposal would require major system modifications and procedural changes for loan accounting systems other than traditional long-term mortgage lending systems, since escrow has not typically been required on these loans. Either these systems must be updated or new software purchased to accommodate the analysis, collection, and maintenance of escrows. Additional staff would be necessary to perform the required maintenance (e.g. pay taxes, insurance, respond to questions, perform the annual analysis) for these loan types.

The proposal would prohibit a lender from collecting fees until after the consumer receives an early Truth in Lending Disclosure except for a charge to obtain a credit report. HUD has recently issued a proposed change to RESPA. The RESPA proposal addresses the charging of fees prior to the issuance of a Good Faith Estimate. If both of these regulations are going to address this topic, they should be coordinated.

This proposal expands the requirement to provide an Early Truth in Lending Disclosure to all transactions secured by the consumer's primary residence. This expansion of the Early Truth in Lending Disclosure requirement will require extensive system enhancements and procedural changes and staff training in order to comply. This additional requirement could add additional expense to the cost of loan origination on short-term home equity loans where the consumer does not have a prior lien.

We are in favor of the majority of the proposed advertising rules; however, we believe that caution should be exercised when placing restrictions on comparing actual or hypothetical payments to future ones as is done for debt consolidation loan advertisements because there are benefits to showing payments comparisons.

We understand that the Regulation Z will have some and maybe all of the proposed changes finalized. The changes will involve system enhancements and upgrades; therefore, sufficient lead-time is needed to allow for system enhancements as well as the procedural changes. Also, with proposed changes to RESPA pending, the Regulators should ensure that the final rules do not conflict with each other as both will add additional requirements to the lender and require major system enhancements. This coordination is essential to ensure less confusion for the consumer as well as the lenders. The proposed changes to both Regulation Z and RESPA as written will require significant lender expense, which ultimately result in costs being passed on to the consumer.

Thank you for the opportunity to comment.
Sincerely,

Katherine L O'Keefe
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